

Introduction and Invitation to Comment

In this Exposure Draft the International Accounting Standards Board proposes to insert in IAS 1 *Presentation of Financial Statements* disclosure requirements for entities that refer to International Financial Reporting Standards (IFRSs) in describing the basis on which their financial statements are prepared but are not able to make an explicit and unreserved statement of compliance with IFRSs. Such an entity would be required to make disclosures about how its financial statements would have been different if prepared in full compliance with IFRSs.

The Board invites comments on the proposed amendments to IAS 1. It would particularly welcome answers to the question set out below. Comments are most helpful if they indicate the specific paragraph, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 1 not addressed in the Exposure Draft.

Question

Do you agree with the proposal for new disclosure requirements? If not, why?

Proposed amendments to IAS 1 *Presentation of Financial Statements*

In the Standard, paragraph 14A is added. Paragraph 105 is amended (new text is underlined). For ease of reference, paragraph 14 is included although no changes are proposed to it.

Overall considerations

Fair presentation and compliance with IFRSs

- 14** An entity whose financial statements comply with IFRSs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IFRSs unless they comply with all the requirements of IFRSs.
- 14A** When an entity refers to IFRSs in describing the basis on which its financial statements are prepared but is not able to make an explicit and unreserved statement of compliance with IFRSs, the entity shall:
- (a) describe each difference between the basis on which its financial statements are prepared and IFRSs that are applicable to its financial statements; and
 - (b) describe how its reported financial position and performance of the entity would have differed if it had complied with IFRSs.
- 105** Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:
- (a) a statement of compliance with IFRSs (see paragraph 14) or description of differences from IFRSs (see paragraph 14A);
 - (b) a summary of significant accounting policies applied (see paragraph 108);
 - (c) supporting information for items presented on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement, in the order in which each statement and each line item is presented; and
 - (d) other disclosures, including:
 - (i) contingent liabilities (see IAS 37) and unrecognised contractual commitments; and
 - (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7).

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in proposing amendments to IAS 1 *Presentation of Financial Statements*.
- BC2 An entity might refer to IFRSs in describing the basis on which its financial statements are prepared without describing those statements as complying with IFRSs. For example, the accounting policies may be described as being 'in accordance with IFRSs as adopted/modified for use in [country X]'. In some situations, a financial reporting framework based on IFRSs and the complete set of current IFRSs may not be significantly different. In other cases, however, the differences may significantly affect the reported financial position or performance of an entity. Consequently, references to IFRSs in describing the basis on which the financial statements are prepared may mislead users. Some users might expect there to be a close relationship between financial statements based on IFRSs and those in compliance with IFRSs. Furthermore, users may be unable to identify the differences between a financial reporting framework based on IFRSs and the complete set of current IFRSs.
- BC3 The Board proposes that, when an entity refers to IFRSs as the basis of its financial reporting framework but does not make an unreserved statement of compliance with IFRSs, it should disclose each instance when IFRSs are not complied with, that is applicable to its financial statements. It should also describe (but need not quantify) the effect, on the statement of financial performance and statement of financial position, of the difference between complying with the accounting required by IFRSs and the accounting treatments applied by the entity. Such disclosures would enable users to judge the usefulness of the information presented and the significance of those differences for the financial statements. It would also help users to interpret those statements and assess their comparability with those of other entities.